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Discussion After the Speeches of Gary Hufbauer and David Crane

QUESTION, *Professor King*: You gave us much to think about and to argue about, and I wanted to start our question period.

Gary, in the best of all possible worlds, the totally free competitive world, we have problems with currencies. For example, we have the relationship between the dollar and the yen, and between the dollar and the mark. In this unregulated world as you see it, what do you see as the role of government in this area, or is there a role of government? Do you take the view that the governments have no roles or what is your view?

ANSWER, *Mr. Hufbauer*: At the Institute we have a range of views. Some people believe in what is called a "target zone system;" at the other extreme we have free floaters.

I find myself closer to the free floating camp because it seems to me that the willingness of the big powers: the European Union, the United States, and Japan, to submerge national policies to the extent necessary and to create currency stability is very close to zero. Unless the major powers are willing to submerge their fiscal and monetary policies in an important way to achieve currency stability, I do not think it can be achieved. So I find myself saying, well, the yen is eighty today, where is the big problem?

QUESTION, *Professor King*: Did you want to comment on that?

COMMENT, *Mr. Crane*: I think there may be a problem in selling U.S. debt in the future and the United States has a lot of debt.

QUESTION, *Professor King*: One thing that troubled me, David, was the endorsement that you had, the relationship between the Japanese auto companies and the suppliers and assemblers. I ran into this relationship when I worked for an auto parts company in Japan. I found it to be closed out of certain markets at that time.

In the best of all possible worlds, can you say that is competitive; in other words, is that the most efficient way to do business where you shut out competition? Do you feel that is the answer? I know it is different than what we have in the United States, but what about the innovator from outside? For example, if you have a U.S. supplier who is an innovator, given your hypothesis, would they have the opportunity to compete? Would that be healthy from the standpoint of a consumer?

ANSWER, *Mr. Crane*: I am not saying the system is perfect. I am saying that the United States auto industry and the German auto industry also grew up with fairly close supplier relationships; even today, no one manufacturers engines, transmissions, or other proprietary

parts of an automobile. At the same time, there is not a hundred percent Japanese content in Japanese cars. Where an innovative company comes along, there are opportunities. I think that the U.S. auto industry has become more innovative, and in recent years, it has forced the Japanese companies to open themselves more to innovative outside suppliers.

The combination of that and the exchange rate realignment, will bring new opportunities. There are some difficulties, to be sure, but there were difficulties in the past in selling to General Motors when both Delco and Fisher Body were big wholly owned operations of theirs. Those kind of imperfections always exist.

If one would do a twenty or twenty-five year forecast into the future, I would expect to see increasing foreign parts in Japanese automobiles, whether or not there is trade pressure. We are in a period of great innovation. The Japanese companies are not going to discover all the innovations. So I am not worried about it.

QUESTION, *Professor King*: My concern was there was a difference between the U.S. relationship — the car companies to the supplier in Japan. There was an ownership element on the part of the prime auto company.

ANSWER, *Mr. Crane*: There is also a recognition I think in Japan that there was an economic benefit from having a closer working relationship with your key suppliers; whereas, from my conversations with major Canadian auto parts suppliers, their relationship with GM, Ford, and Chrysler for many years was much more difficult. Companies were expected to cut prices by say, ten percent next year and live with the same volume, and pass all the savings on to the auto companies, and also to take on more of the R&D costs. There was a more adversarial kind of relationship.

I think that has changed recently, and this is where competition in a wider sense comes into play. The North American auto industry has seen that there is some benefit in having long-term relationships with suppliers and in reducing the number of suppliers.

COMMENT, *Mr. Hufbauer*: Just quickly on this issue. First of all, eighty yen to the dollar solves an awful lot of market access problems.

Secondly, I cannot agree with David that we should take a relaxed view on foreign anti-competitive policies or vertical keiretsu for the following very simple reason. If we take a relaxed intellectual view on these matters, and say that it is fine for NTT to control the internal Japanese telecom market, then you have just set up a context for U.S. companies to say, well, what their companies do privately because of lack of competition policy, we should emulate by government measures. We should preclude the foreign switching of equipment or auto parts from being sold in the United States. We should introduce local con-

tent rules.

I do not think David's model of two coexisting systems will work over the long haul. Either you are aggressively for your system or you begin to borrow elements from the other country's system. Since I detest a cartelized system, I am an intellectual imperialist in the pro-competitive battle.

QUESTION, *Mr. Barrett*: I actually have a different question for each of you.

For Mr. Hufbauer, you talk about competitiveness, and the one thing I would like for you to comment on, that was not addressed at all, is instead of how regulations protect our industry from competition, how our regulations, explicitly our export control laws, hinder our ability to compete in the global market.

And for Mr. Crane, as a U.S. citizen married to a Canadian who has on occasion been known to watch Fox, (all of whose programs seem to be produced in Canada), I sometimes wonder whether the Canadian difference is as large as Canadians would like us to believe. They argue strenuously for cultural difference, and I put it to you that it is really a way of protecting your economic interests since Mexico showed absolutely no interest in protecting its cultural industry when it was engaged in the NAFTA negotiations presumably because they felt it was different enough. They did not need to protect it.

ANSWER, *Mr. Hufbauer*: Briefly on U.S. export controls, just yesterday I was at a meeting of a big corporation discussing this very subject, and a member of the Department of Commerce came and outlined the system. It is truly mind-boggling. It is a wonderful growth industry for anybody who works in a firm subject to export controls, because there is a lot of internal audit responsibility, not only of your own corporation, but also of your suppliers, and it goes on and on. It is a paper chase.

On the whole, I think the system is deplorable. I do not think it is what won the Cold War. I do not think it will stop terrorism or future Iraqs. But the fact of the matter is that it only takes one instance of a terrorist attack — chemical, biological, or bomb — which contains some component from the United States, and enthusiasm for export controls will be rekindled.

So I am afraid that we are in a period when we are going to continue with these controls. In fact, they are going to get more extensive because of the complexity of chemical and biological warfare, and because future Saddams will continue to plague us. As I say, it is a growth industry for young lawyers.

ANSWER, *Mr. Crane*: I disagree with your point that Mexico did not have any cultural concerns in the NAFTA negotiations. I think there were some, but they were not of the same dimension as Canada by any means.

Canada is different. We live along the border. Almost everybody lives along that same narrow strip. There is a tremendous enjoyment of the creativity and the pure entertainment value of American mass media communications produced, whether in movies, or magazines, or whatever.

But there are certainly economic issues there. If a magazine like *Time* has already covered all of its editorial costs, it can come in to Canada and sell advertising at a quarter of the price that will be necessary for a similar magazine in Canada. Basically it takes away the economic base for a domestic magazine publishing industry.

And if film distribution is basically controlled out of Hollywood, with film distribution profits from Canada flowing back into the United States, then there are few financial resources for film and video distribution for Canadian film production. And at the same time in the theaters, there are not the same opportunities to show these movies.

What Canada does is very much in the margin. I do not think it is always realized in the United States that U.S. film, broadcast, sound recording, and publishing media have entered the Canadian market.

There is a political concern, a survey — this goes back about fifteen years now, but it still made an impression on people when you found school kids thinking that Davey Crockett settled the Canadian west and that Canada had the system of district attorneys, and it was unsafe to go on the subways, and everybody had a right to carry a gun, and all these things.

There are no barriers to American media coming into Canada at all. Everything that America produces can be seen and bought in Canada so that is not an issue. It is a matter of creating some space for Canadian ideas, values, and culture.

QUESTION, *Mr. Doh*: My question is for Mr. Hufbauer who was quoted earlier this week in the *Wall Street Journal*. The article discussed NAFTA and really the way that NAFTA session must have been justified or explained to a suspicious American public. And having spoken frequently to the press myself, I do not want to suggest that the way that the journal presented Mr. Hufbauer's comments was necessarily precisely accurate. But you seem to be essentially repudiating this notion that we can tie trade liberalization directly to U.S. job gains, and I would agree that sometimes those connections and those correlations are overplayed. But the question becomes how do we explain the benefits of global trade liberalization and this increasing competition to an American public that is quite suspicious and quite concerned about increasing international ties?

ANSWER, *Mr. Hufbauer*: That is a very good question. I understand fully the very strong pressure to reduce discussion about a complex trade agreement to a jobs number or a net export gain number.

I would hope that by the time we have another major trade agree-

ment we could come up with more sophisticated approaches to measure productivity gains. But we cannot just do it in the last three months when we are trying to sell the agreement. We have to start with the intellectual base a couple of years before and begin to build up accounts of how U.S. firms, when they are able to get into foreign markets, can bring back useful technology, sell more products, and increase output per worker. All this is more subtle, but it is a more accurate picture than the rough jobs figure. Yes, you have got a big task ahead in the Department of Commerce to prepare for the next agreement.

